

Depreciation Basics

Agenda

- What property can and cannot be depreciated
- When depreciation begins and ends
- Methods for depreciating property
- Basis of depreciable property
- How to treat repairs and improvements
- Electing the section 179 deduction

Agenda cont.

- Claiming the special depreciation allowance
- Figuring depreciation under MACRS
- Additional rules for listed property
- Basis of assets

What property can be depreciated

- Tangible property
- Property you own
- Leased property
- Property used in your business or income producing activity
- Property having a determinable useful life
- Property lasting more than one year

What property cannot be depreciated

- Land
- You cannot depreciate land because it does not wear out, become obsolete or get used up.
- Excepted property
- Section 197 tangibles cannot be depreciated, these cost must be amortized.

When depreciation begins and ends

- Begins
 - When placed in service
 - Conversion to business use
 - Idle property
- Ends
 - Cost or other basis fully recovered
 - Retired from service

Modified Accelerated Cost Recovery System - MACRS

- Cannot use MACRS to depreciate:
 - Property placed in service before 1987
 - Certain property owned or used in 1986
 - Intangible property
 - Films, video tapes and recordings
 - Certain corporate or partnership property acquired in a nontaxable transfer or
 - Property you elected to exclude from MACRS

Basis of depreciable property

- Determining the basis of depreciable property
 - Cost as basis
 - Other basis
 - Property changed from personal use
 - Property acquired in a nontaxable transaction
 - Adjusted basis
 - Basis adjustment for depreciation allowed or allowable

How to treat repairs and improvements

- If you improve depreciable property, you must treat the improvement as separate depreciable property
- You generally deduct the cost of improving business property in the same way as any other business expense.

Electing the Section 179 deduction

- What property qualifies
 - It must be eligible property
 - It must be acquired for business use
 - It must have been acquired by purchase

Electing the Section 179 deduction

- What property does not qualify
 - Land and improvements do not qualify as Section 179 property.
 - Excepted property
 - There are certain properties not eligible for the Section 179 deduction
- Publication 946, How to Depreciate Property
Chapter 2

2014 Changes

- Expiration of increased Section 179 deduction limits and threshold amounts
- Definition of Section 179 property will no longer include certain qualified real property
- Expiration of recovery periods for:
 - Motor sports
 - Qualified leasehold improvement, restaurant, and retail improvements properties

2014 Changes

- Accelerated depreciation for qualified Indian reservation property, and
- Expiration of the 3-year recovery period for certain race horses

Situations affecting dollar limit

- The cost of your Section 179 property placed in service exceeds \$2,000,000,
- Your business is an enterprise zone business,
- You placed in service a sport utility or certain other vehicles, or
- You are married filing a joint or separate return

Electing the Section 179 deduction

- Taxable Income

- In general, figure taxable income for this purpose by totaling the net income and losses from all trades and businesses you actively conducted during the year.

Electing the Section 179 deduction Special depreciation allowance

- The allowance applies only for the first year you place the property in service
- See Publication 946, Chapter 3, Claiming the Special Depreciation Allowance for additional information regarding:
 - qualified property,
 - special rules, and
 - excepted property

Figuring depreciation Modified Accelerated Cost Recovery System

- MACRS consists of two depreciation systems:
 - General Depreciation System (GDS)
 - Alternative Depreciation System (ADS)

MACRS – GDS/ADS

- The 200 percent declining balance method over a GDS recovery period
- The 150% declining balance method over a GDS recovery period
- The straight line method over a GDS recovery period
- The straight line method over an ADS recovery period

Additional rules for listed property

- Listed property is any of the following:
 - Passenger automobiles,
 - Any other property used for transportation, unless it is an excepted vehicle,
 - Property generally used for entertainment, recreation, or amusement or
 - Computers and related peripheral equipment

Basis of Assets

- Basis is the amount of your investment in property for tax purposes
 - The basis of property you buy is usually its cost.
- Publication 551 Basis of Assets

Additional Resources

- Publication 946 How to Depreciate Property
- Publication 587 Business Use of Your Home
- Publication 225 Farmer's Tax Guide
- Publication 535 Business Expenses
- Publication 544 Sales and Other Disposition of Assets
- Publication 551 Basis of Assets